



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
FULTON COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2000**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FULTON COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2000**

The Auditor of Public Accounts has completed the Fulton County Fiscal Court audit for fiscal year ended June 30, 2000. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Cash balances decreased by \$1,503,319 from the beginning of the year, resulting in a cash surplus of \$2,684,834 as of June 30, 2000.

#### **Debt Obligations:**

Total bonded debt principal for the Capital Projects Corporation - Debt Service Fund as of June 30, 2000, was \$2,198,058. Future collections of \$2,628,462 are needed to pay all bonded debt principal and interest.

Capital lease principal agreements for the Fulton County Fiscal Court totaled \$1,073,490 as of June 30, 2000. Future principal and interest payments of \$1,627,771 are needed to meet these obligations.

#### **Report Comments:**

- The County Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,569,240 To Protect Deposits
- Internal Control Over Federal Expenditures Should Be Improved

#### **Subsequent Event:**

In May 2001, the Fulton County Fiscal Court was awarded a Community Development Block Grant - Phase II in the amount of \$1,000,000. The Fiscal Court has contracted with the same grant administrator to oversee this grant. During fiscal year 2000-2001 the Fiscal Court expended \$29,970 of federal funds. During the first quarter of fiscal year 2001-2002, the Fiscal Court expended \$372,977 of federal funds.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
FULTON COUNTY OFFICIALS .....	3
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES ARISING FROM CASH TRANSACTIONS .....	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES .....	10
NOTES TO FINANCIAL STATEMENTS .....	12
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE.....	23
SCHEDULE OF OPERATING REVENUE .....	27
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES.....	31
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	35
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	39
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	43
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	49
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	50





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Harold Garrison, Fulton County Judge/Executive  
Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Fulton County, Kentucky, as of June 30, 2000, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Fulton County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Fulton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2000 of Fulton County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2001 on our consideration of Fulton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Harold Garrison, Fulton County Judge/Executive  
Members of the Fulton County Fiscal Court

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Fulton County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following:

- The County Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,569,240 To Protect Deposits
- Internal Control Over Federal Expenditures Should Be Improved

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed –  
October 23, 2001



FULTON COUNTY OFFICIALS

Fiscal Year Ended June 30, 2000

**Fiscal Court Members:**

Harold M. Garrison	County Judge/Executive
Billy Nelms, Jr.	Magistrate
Louis Roscoe Hutchins	Magistrate
James D. Black	Magistrate
Dennis Hulin	Magistrate

**Other Elected Officials:**

Richard L. Major, Jr.	County Attorney
Ricky Parnell	Jailer
Lesia LaRue	County Clerk
Sarah Johnson	Circuit Court Clerk
Robert Hopper	Sheriff
Mike Alexander	Property Valuation Administrator
Henry Callison	Coroner

**Appointed Personnel:**

Karen Argo	County Treasurer
Fonda Swain	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

FULTON COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2000

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 507,918	
Road and Bridge Fund:		
Cash	807,717	
Jail Fund:		
Cash	829,439	
Disaster and Emergency Services Fund:		
Cash	<u>6,385</u>	\$ 2,151,459

Capital Projects Fund Type

Riverport Fund:

Cash	9,640
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Debt Service Fund Type

Capital Projects Corporation - Debt Service Fund:

1996 Refunding Bonds - Cash	523,735
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Other Resources

General Fund Type

Jail Fund:

Amounts to be Provided in Future Years for Leasing Trust Principal Payments - Jail Annex #1	\$ 335,000	
Amounts to be Provided in Future Years for Leasing Trust Principal Payments - Jail Annex #2	738,490	
Amounts to be Provided in Future Years for Jail Capital Lease Obligations - Bond Principal Payments	<u>263,058</u>	1,336,548

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2000  
 (Continued)

Assets and Other Resources (Continued)

Other Resources (Continued)

Debt Service Fund Type

Capital Projects Corporation - Debt Service Fund:

1996 Refunding Revenue Bonds-Amounts to be Provided in Future Years	\$ 1,411,265
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Total Assets and Other Resources	<u>\$ 5,432,647</u>
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Liabilities and Fund Balances

Liabilities

General Fund Type

Jail Fund:

Leasing Trust Obligation Jail Annex #1 - Principal Payments (Note 4)	\$ 335,000	
Leasing Trust Obligation Jail Annex #2 - Principal Payments (Note 4)	738,490	
Capital Lease Obligation - Bond Principal Payments (Note 5 )	<u>263,058</u>	\$ 1,336,548

Debt Service Fund Type

Capital Projects Corporation - Debt Service Fund:

1996 Refunding Revenue Bonds - Bond Principal Not Matured (Note 6B)	1,935,000
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The accompanying notes are an integral part of the financial statements.

FULTON COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2000  
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances

Reserved:

General Fund Type

Disaster and Emergency Services Fund	\$	6,385
--------------------------------------	----	-------

Capital Projects Fund Type

Riverport Fund		9,640
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Unreserved:

General Fund Type

General Fund	\$	507,918	
Road and Bridge Fund		807,717	
Jail Fund		829,439	2,145,074
		<hr/>	<hr/>
Total Liabilities and Fund Balances	\$	5,432,647	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

FULTON COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2000

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 4,511,554	\$ 591,848	\$ 739,291	\$ 1,848,989
Transfers In	1,777,219			
Total Cash Receipts	6,288,773	\$ 591,848	\$ 739,291	\$ 1,848,989
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,998,212	\$ 675,816	\$ 664,263	\$ 1,555,660
Transfers Out	1,777,219	6,342		
Fees	600			
Refunds	1,056			
Bonds:				
Principal Paid	1,700,000			
Interest Paid	238,032			
Call Premium	27,300			
Kentucky Association of Counties Leasing Trust Obligation Jail Annex				
Principal Paid	39,574			39,574
Kentucky Local Facility Construction Authority Revenue Bonds				
Principal Paid	10,099			10,099
Total Cash Disbursements	7,792,092	\$ 682,158	\$ 664,263	\$ 1,605,333
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (1,503,319)	\$ (90,310)	\$ 75,028	\$ 243,656
Cash Balance - July 1, 1999	4,188,153	598,228	732,689	585,783
Cash Balance - June 30, 2000	2,684,834	\$ 507,918	\$ 807,717	\$ 829,439

The accompanying notes are an integral part of the financial statements.



FULTON COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 Fiscal Year Ended June 30, 2000  
 (Continued)

General Fund Type	Capital Projects Fund Type		Debt Service Fund Type
Disaster and Emergency Services Fund	Riverport Fund	Community Development Block Grant Fund	Capital Projects Corporation - Debt Service Fund
\$ 10,428	\$ 644,750	\$ 423,605	\$ 252,643
			1,777,219
\$ 10,428	\$ 644,750	\$ 423,605	\$ 2,029,862
\$ 14,024	\$ 635,110	\$ 453,339	\$
			1,770,877
			600
			1,056
			1,700,000
			238,032
			27,300
\$ 14,024	\$ 635,110	\$ 453,339	\$ 3,737,865
\$ (3,596)	\$ 9,640	\$ (29,734)	\$ (1,708,003)
9,981		29,734	2,231,738
\$ 6,385	\$ 9,640	\$ 0	\$ 523,735

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Fulton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Capital Projects Corporation as part of the reporting entity.

The Capital Projects Corporation is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management has included the Capital Projects Corporation as a component unit, and the entity's financial activity was blended with that of the Fiscal Court.

Additional - Fulton County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Fulton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fulton County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Fulton County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Disaster and Emergency Services Fund.

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Capital Projects Fund Type

Capital Project Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Riverport Fund and the Community Development Block Grant Fund are reported as Capital Projects Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Capital Projects Corporation - Debt Service Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Fulton County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

FULTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2000  
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

Formal budgets are not adopted for the Capital Projects Corporation Fund - Debt Service Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Fulton County Fiscal Court:

Fulton County Extension District  
 Fulton County Transit Authority  
 Fulton County Conservation District  
 Fulton County Library District

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture.

Fulton County Economic Development Partnership  
 Senior Citizens Incorporated  
 Hickman-Fulton County Riverport Authority

FULTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2000  
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 31, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,569,240 of public funds uninsured and unsecured. Also, as of June 30, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$109,213 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of December 31, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 1,636,554
Collateralized by surety bond	200,000
Insured by FDIC insurance	422,074
Uncollateralized and uninsured	<u>1,569,240</u>
Total	<u><u>\$ 3,827,868</u></u>

FULTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2000  
 (Continued)

Note 4. Long-Term Debt

Jail Annex #1 and Jail Annex #2

The Fulton County Fiscal Court has entered into two leasing trust agreements with the Kentucky Association of Counties Leasing Trust. The first was entered into on July 17, 1992 and the second on January 30, 1998. The purposes of the leasing trusts were for the construction and use of the Fulton County Detention Facility Annex #1 and Annex #2. The interest rate for the leasing trust agreement for Annex #1 is a fixed rate of 5.25 % and for Annex #2 is a variable rate, which is 3.5% for the current fiscal year. Total lease trusts principal amounts were \$415,000 and \$775,000, respectively. Lease principal and interest requirements due in the next five years and thereafter are:

Annex #1

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001	\$ 20,446	\$ 13,000
2002	19,639	13,000
2003	18,807	14,000
2004	17,913	15,000
2005	16,982	15,000
Thereafter	<u>110,582</u>	<u>265,000</u>
Totals	<u>\$ 204,369</u>	<u>\$ 335,000</u>

Annex #2

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001	\$ 34,449	\$ 28,760
2002	33,056	29,997
2003	31,604	31,288
2004	30,089	32,634
2005	31,763	33,571
Thereafter	<u>188,951</u>	<u>582,240</u>
Totals	<u>\$ 349,912</u>	<u>\$ 738,490</u>

FULTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2000  
 (Continued)

Note 5. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$943,147 of revenue bonds at various interest rates (6.25% through 10.375%), of which the county has agreed to pay \$355,082 principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2000, totaled \$263,058. Bond principal and interest requirements due in the next five years and thereafter are:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2001	\$ 17,123	\$ 10,767
2002	16,386	11,480
2003	15,601	12,240
2004	14,762	13,051
2005	13,868	13,916
Thereafter	<u>74,154</u>	<u>201,604</u>
	<u>\$ 151,894</u>	<u>\$ 263,058</u>

Note 6. Advanced Refunding of Courthouse Facilities Bond Issues

A. Capital Projects Corporation Fund 1990B Courthouse Facilities Bonds Outstanding

The Fulton County Capital Projects Corporation, an independent corporate agency and instrumentality of Fulton County, issued first mortgage revenue bonds, series 1990B, dated January 15, 1990, for the purpose of renovating and constructing a courthouse facility. These bonds are not matured, but are to be discharged in future years by the proceeds of the First Mortgage Refunding Revenue Bonds, Series 1996 (See B below). Bond principal of \$240,000 and interest of \$8,774 is due in fiscal year 2001.

B. Capital Projects Corporation Fund 1996 Refunding Revenue Bonds

The Fulton County Capital Projects Corporation, an independent corporate agency and instrumentality of Fulton County, issued first mortgage refunding revenue bonds, series 1996, dated December 1, 1996, for the purpose of discharging the outstanding bonds of series 1990A, 1990B, and 1991 (collectively referred to herein as the "Prior Bonds"). The net proceeds thereof were used to complete, equip, and furnish the Court Facilities Project and annex which houses county government offices.

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 6. Advanced Refunding of Courthouse Facilities Bond Issues (Continued)

B. Capital Projects Corporation Fund 1996 Refunding Revenue Bonds (Continued)

The corporation issued \$2,215,000 of refunding revenue bonds, the proceeds of which were used for deposit to the Escrow Fund. This amount when added with interest earnings thereon and any cash or investments held by the trustee for the prior bonds, is planned to be adequate to discharge all outstanding prior bonds. As of June 30, 2000, the prior bonds for the 1990A and 1991 series had been discharged. The Escrow Fund provides the following:

- A) Meet the scheduled principal and interest payments of the 1990B prior bonds beginning January 1, 1997 and through January 1, 2000 (dates inclusive);
- B) To call on January 1, 2001, all the principal amounts then outstanding of the 1990B prior bonds at 102%;

The Kentucky Administrative Office of the Courts has agreed to pay lease payments directly to the paying agent on behalf of the county as is required by the Use and Sublease Agreement between the county and the Administrative Office of the Courts dated December 1, 1996. If the payment from the Sublease Agreement is not sufficient to meet the principal and interest requirements of the bond, the county is contingently liable for the Administrative Office of the Courts' payments.

Bond principal and interest requirements due in the next five years and thereafter are:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2001	\$ 99,645	\$ 95,000
2002	94,575	100,000
2003	89,245	105,000
2004	83,655	110,000
2005	77,675	120,000
Thereafter	<u>357,450</u>	<u>1,405,000</u>
Totals	<u>\$ 802,245</u>	<u>\$ 1,935,000</u>

Note 7. Other Obligation

On April 26, 1998, Fulton County entered into a lease with the City of Fulton for the use of Fulton City Jail. This jail is used as a county twelve-hour holdover facility. The county is to pay the city yearly rent of \$5,000 in four equal quarterly payments. The lease remains in effect from year to year until such time as either party terminates the lease with a 60-day notice to the other party.



FULTON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 8. Related Party Transaction

During fiscal year ending June 30, 2000, Fulton County purchased the majority of its petroleum products from Fields Petroleum, Incorporated. The magistrate from District 4 was employed by Fields Petroleum, Incorporated during this same time period. While this particular magistrate abstained from voting on the oil and gas bids, the fiscal court awarded this bid to Fields Petroleum for fiscal year ending June 30, 2000. Total purchases made for this fiscal year from Fields Petroleum, Incorporated, amounted to \$23,733. The county's ethics code allows this type of transaction, since the magistrate did not participate in the bid process.

Note 9. Insurance

For the fiscal year ended June 30, 2000, Fulton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Fulton County Jail Canteen Fund had income of \$44,873, less cost of goods sold of \$16,045, less other expenses of \$23,954, leaving net income of \$4,874 as of June 30, 2000. All expenditures were for the benefit and/or recreation of the inmates.

Note 11. Grants

A. Fulton County Scattered Site Phase I Project

Fulton County Fiscal Court was awarded a Community Development Block Grant for \$713,500 from the United States Department of Housing and Urban Development. The Department for Local Government, Commonwealth of Kentucky oversees these block grant funds. During fiscal year 1999, the Fulton County Fiscal Court received grant funds totaling \$289,895 and disbursed grant funds totaling \$260,161. During fiscal year 2000, the Fulton County Fiscal Court received grant funds totaling \$423,605 and disbursed funds totaling \$453,339. All transactions are complete as of June 30, 2000. The Department for Local Government has reviewed and approved the Certificate of Completion and Closeout Agreement for the above-mentioned project.

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 11. Grants (Continued)

B. Hickman-Fulton County Riverport Project

Fulton County Fiscal Court was awarded a grant sum of \$700,000 from the Department for Local Government. These funds were allocated by the General Assembly in 1998 when House Bill 321 was enacted. During fiscal year 1999, the Fulton County Fiscal Court received grant funds totaling \$55,250 and disbursed grant funds totaling \$55,250. During fiscal year 2000, the Fulton County Fiscal Court received grant funds totaling \$644,750 and disbursed funds totaling \$635,110. The unexpended grant fund balance as June 30, 2000 is \$9,640.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



FULTON COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2000

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 610,853	\$ 591,848	\$ (19,005)
Road and Bridge Fund	536,141	739,291	203,150
Jail Fund	1,808,120	1,848,989	40,869
Disaster and Emergency Services Fund	16,135	10,428	(5,707)
<u>Capital Projects Fund Type</u>			
Riverport Fund	644,750	644,750	
Community Development Block Grant Fund	453,339	423,605	(29,734)
Totals	<u>\$ 4,069,338</u>	<u>\$ 4,258,911</u>	<u>\$ 189,573</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 4,069,338
Add: Budgeted Prior Year Surplus			1,400,966
Less: Other Financing Uses			<u>(88,900)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 5,381,404</u>

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SCHEDULE OF OPERATING REVENUE





FULTON COUNTY  
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2000

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 438,519	\$ 438,519	\$	\$
In Lieu Tax Payments	26,811	26,811		
Excess Fees	10,487	10,487		
License and Permits	460	460		
Intergovernmental Revenues	3,696,857	2,450,902	1,068,355	177,600
Charges for Services	52,810	52,810		
Miscellaneous Revenues	142,077	142,077		
Interest Earned	143,533	68,490		75,043
Total Operating Revenue	<u>\$ 4,511,554</u>	<u>\$ 3,190,556</u>	<u>\$ 1,068,355</u>	<u>\$ 252,643</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



FULTON COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2000

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 574,658	\$ 568,912	\$ 5,746
Protection to Persons and Property	1,664,870	1,302,749	362,121
General Health and Sanitation	2,000	686	1,314
Social Services	4,800	2,091	2,709
Recreation and Culture	17,300	4,804	12,496
Transportation Facilities and Services	100,000		100,000
Roads	841,216	510,069	331,147
Other Transportation Facilities and Services	16,460	13,190	3,270
Debt Service	55,900	55,682	218
Capital Projects	63,500	2,344	61,156
Administration	942,611	449,236	493,375
Total Operating Budget - All General Fund Types	\$ 4,283,315	\$ 2,909,763	\$ 1,373,552
Other Financing Uses:			
Kentucky Association of Counties			
Leasing Trust Obligation Jail Annex			
Principal	40,000	39,574	426
Kentucky Local Facility Construction			
Authority Revenue Bonds			
Principal	10,100	10,099	1
Transfers to Capital Projects			
Corporation Fund	38,800	6,342	32,458
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 4,372,215</u>	<u>\$ 2,965,778</u>	<u>\$ 1,406,437</u>
Expenditure Categories	CAPITAL PROJECTS FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Capital Projects	\$ 1,098,089	\$ 1,088,449	\$ 9,640
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	<u>\$ 1,098,089</u>	<u>\$ 1,088,449</u>	<u>\$ 9,640</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Harold Garrison, Fulton County Judge/Executive

Members of the Fulton County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Fulton County, Kentucky, as of and for the year ended June 30, 2000, and have issued our report thereon dated October 23, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fulton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs:

Reference Number 2000-1

- The County Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,569,240 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Caldwell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 23, 2001

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Harold Garrison, Fulton County Judge/Executive

Members of the Fulton County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Fulton County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2000. Fulton County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fulton County's management. Our responsibility is to express an opinion on Fulton County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fulton County's compliance with those requirements and performing such other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fulton County's compliance with those requirements.

In our opinion, Fulton County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Fulton County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Fulton County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Fulton County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The following reportable condition is described in the accompanying schedule of findings and questioned costs.

Reference Number 2000-2

- Internal Control Over Federal Expenditures Should Be Improved

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 23, 2001

## FINDINGS AND QUESTIONED COSTS





FULTON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2000

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Fulton County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed in Accordance With Government Auditing Standards.
3. One instance of noncompliance material to the financial statements of Fulton County was disclosed during the audit.
4. One reportable condition disclosed during the audit of the major federal awards program is reported in the Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133. The condition is reported as a material weakness.
5. The auditor's report on compliance for the audit of the major federal awards program for Fulton County expresses an unqualified opinion.
6. Audit findings relative to the major federal awards program for Fulton County are reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant (CFDA #14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Fulton County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCE

Reference Number 2000-1

The County Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,569,240 To Protect Deposits

On December 31, 1999, \$1,569,240 of the county's deposits of public funds in depository institutions was uninsured and unsecured. Also on June 30, 2000, \$109,213 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

FULTON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2000  
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

NONCOMPLIANCE (CONTINUED)

Reference Number 2000-1 (Continued)

The County Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,569,240 To Protect Deposits (Continued)

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*Harold Garrison, Fulton County Judge/Executive's Response:*

*The Fulton County Fiscal Court has a signed Pledge of Securities Agreement with all the banks where county money is deposited. The county is constantly contacting the banks requesting more pledges to cover deposited funds. One local bank is the trustee bank for the Fulton County Capitals Corporation, along with county moneys being invested in certificates of deposit. Due to the refinancing of the Courthouse Bond Issue and outstanding bonds being called, funds passed through the trustee bank in a 24-hour period. At the present time all county funds are covered and the county will continue to monitor pledges closely.*

PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

Reference Number 2000-2

Internal Control Over Federal Expenditures Should Be Improved

Under the provisions of OMB Circular A-102-Common Rule, non-federal entities receiving federal awards shall establish and maintain internal controls designed to reasonably ensure compliance with federal laws, state regulations, and program compliance requirements. During our audit, material deficiencies were noted in internal controls over the Fulton County - Community Development Block Grant.

The Fulton County Fiscal Court entered into a contract with an administrator to oversee all aspects of the grant contract. The administrator was responsible for submitting a draw down request to the Fulton County Fiscal Court for approval. When federal funds were received, these funds were released to the administrator and deposited into a separate bank account established by the administrator. There was no further supervision of the administrator. The administrator did not always disburse the federal funds as approved by the fiscal court in the draw down requests or properly document the inspection process. We were able to determine that all federal expenditures were allowable under the grant contract and all contractors were paid the proper amounts based on their contracts. There were no questioned costs.

FULTON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2000  
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT (Continued)

Reference Number 2000-2 (Continued)

Internal Control Over Federal Expenditures Should Be Improved (Continued)

There was an inadequate segregation of duties; the administrator had total control over the expenditure of federal funds. We recommend that the Fulton County Fiscal Court establish the following controls over federal expenditures to ensure compliance with federal and state laws, applicable regulations, and program compliance requirements.

- The fiscal court should institute a separate bank account for Community Development Block Grant funds. The County Judge/Executive and County Treasurer should sign the checks. In addition, the fiscal court should budget the receipt and expenditure of these funds.
- The fiscal court should pass a standing order allowing the County Judge/Executive and County Treasurer to disburse Community Development Block Grant Funds in accordance with federal laws and regulations. The purpose of this order is to allow them to expend the funds within five days after receipt in order to comply with the cash management requirements set forth by the federal government.
- The fiscal court should continue to approve the draw down requests. The grant administrator should prepare a folder containing the draw down request, support for the expenditures and write the checks or county personnel could write the checks. At this point in time, the checks are not signed. This folder should be submitted to the County Judge/Executive and County Treasurer for review. After the County Judge/Executive and County Treasurer review and approve the documentation, the County Treasurer should contact the state and request that the funds be transferred to the county.
- The County Treasurer should then monitor the bank account to determine when the federal funds are deposited. After the funds are received, the County Judge/Executive and County Treasurer should sign and mail the checks.
- The Finance Officer should then post the receipts and expenditures to the proper financial records.
- These federal expenditures should be listed on the claims listed and approved by the fiscal court at its next meeting.
- The grant administrator should submit a monthly progress report to the fiscal court.

*Harold Garrison, Fulton County Judge/Executive's Response:*

*None.*

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



FULTON COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2000

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed - Through State Department for Local Government:		
Community Development Block Grant - (CFDA #14.228) (Notes 2 and 3)	B-98-DC-21-0001(014)	\$ 453,339
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
Local Law Enforcement Grant (CFDA #16.592 )	LLEB-168-1199	9,999
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	N/A	5,599
Total Cash Expenditures of Federal Awards		<u>\$ 468,937</u>

FULTON COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2000

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - Community Development Block Grant - Major Program

A major federal program is defined as a federally funded program expending at least \$300,000 of federal funds within one fiscal year. The Fulton County Fiscal Court was awarded a Community Development Block Grant in the amount of \$713,500 in April 1999. During the fiscal year 1999-2000, the Fulton County Fiscal Court expended \$453,339 and this qualifies as a major program under OMB Circular A-133.

\$29,734, of the \$453,339, was expended on the county's books in the current year, but expended on the administrator's books in the prior year. Since the \$29,734 was not reported in the prior year, we are including it in the current year as the county has it reported.

Note 4 - Subsequent Event

In May 2001, the Fulton County Fiscal Court was awarded a Community Development Block Grant - Phase II in the amount of \$1,000,000. The Fiscal Court has contracted with the same grant administrator to oversee this grant. During the fiscal year 2000-2001, the Fiscal Court expended \$29,970 of these federal funds. During the first quarter of the fiscal year 2001-2002, the Fiscal Court has expended \$372,977 of federal funds.



